

Message Text

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SUBJECT: GOI DRAFT FOR REPORT ON ROLE OF THE INTERNATIONAL
OIL COMPANIES

REF: ROME 3729

STATE ALSO FOR T/IEP

FOLLOWING IS TEXT OF GOI DRAFT PAPER TO BE SUBMITTED TO APRIL 2
MEETING OF AD HOC GROUP ON ROLE OF INTERNATIONAL OIL COMPANIES
WHICH RISTAGNO HAS ASKED THAT WE FORWARD TO DEPARTMENT.

DEPARTMENT PLEASE REPEAT AS NECESSARY.

BEGIN QTE FOR THE REPORT ON THE ROLE OF THE INTERNATIONAL
OIL COMPANIES

1. PAST AND PRESENT OF THE INTERNATIONAL OIL COMPANIES AND OF THE
OTHER OIL COMPANIES. THE EIGHT COMPANIES WITH INTERNATIONAL
SCOPE OF ACTIVITIES (THE SO CALLED "MAJORS") FORMED THE BACKBONE
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OF THE GLOBAL OIL SUPPLY AND INVESTMENT STRUCTURE. ALONGSIDE

THEM, NATIONAL COMPANIES OF CONSUMER AND PRODUCER COUNTRIES AND SO CALLED INDEPENDENTS DID OPERATE, BUT IN MOST CASES ON A MARGINAL SCALE. THE ROLE OF THE INTERNATIONALS WAS MAINLY THEIR ABILITY TO BALANCE SUPPLY AND DEMAND BY PRODUCING ROUGHLY AS MUCH CRUDE OIL AS THEY COULD SELL. NOW THAT THIS ROLE OF DECISION MAKING IN RESPECT OF PRODUCTION, INCLUDING THE INVESTMENT DECISIONS, IS BEING TAKEN AWAY FROM THEM IN OPEC COUNTRIES A REASSESSMENT IS REQUIRED.

2. POSSIBLE FUTURE DEVELOPMENT OF THE INTERNATIONAL OIL INDUSTRY. THE INTERNATIONAL OIL COMPANIES, THOUGH REDUCED IN SCOPE AND SHARE, REMAIN IN THE NEAR FUTURE AN INDISPENSABLE PART OF THE WORLD STRUCTURE, BUT THE TRADITIONAL MAJOR OIL COMPANIES WILL NO LONGER BE MOTIVATED TO THE SAME EXTENT AS PREVIOUSLY BY THEIR CRUDE OIL AVAILABILITY TO INVEST IN CONSUMER COUNTRY REFINERIES AND MARKETING; IN FACT THEY MIGHT WISH TO WITHDRAW FROM ACQUIRED POSITIONS. ON THE OTHER HAND A STRENGTHENING OF NATIONAL COMPANIES IN CONSUMER COUNTRIES IS NECESSARY BECAUSE IT IS THEY WHO WILL HAVE TO TAKE OVER CERTAIN ACTIVITIES PREVIOUSLY CARRIED ON BY THE TRADITIONAL INTERNATIONALS. SINCE NATIONAL GOVERNMENT OWNED COMPANIES OF PRODUCER COUNTRIES WILL HAVE A GREATER ROLE TO PLAY, IT IS INEVITABLE THAT GOVERNMENTS AND STATE COMPANIES IN CONSUMER COUNTRIES SHOULD BE ABLE TO BECOME EFFECTIVE INSTRUMENTS. THIS WILL APPLY NOT ONLY TO "DOWNSTREAM" OPERATIONS IN THEIR OWN COUNTRIES BUT ALSO TO INVESTMENTS ELSEWHERE IN EXPLORATION AND PRODUCTION. BECAUSE OF THIS SHRINKING ROLE OF THE MAJORS AND THE NEW EXPANDED ROLE OF THE NATIONAL COMPANIES IN CONSUMERR COUNTRIES, IT IS NECESSARY TO DEVELOP VIABLE NEW ALTERNATIVES. IN THIS CONNECTION, THERE IS URGENT NEED FOR THE RELATIVE POSITIONS OF ALL THE OPERATORS TO BE DEFINED AND TO BE SAFEGUARDED.

3. PROPOSALS FOR A NEW SETTLEMENT OF THE INTERNATIONAL OIL INDUSTRY. WITH REFERENCE TO THE ABOVE MENTIONED SITUATION A SYSTEM SHOULD BE ENVISAGED IN WHICH THE VARIOUS ELEMENTS CAN COEXIST AND COOPERATE. FOR THIS TO HAPPEN THE PRECONDITIONS SEEM TO BE:

A) IF THE PRESENT TREND TOWARDS (AT LEAST NOMINALLY) TOTAL "PARTICIPATION" OF OPEC COUNTRY GOVERNMENTS MATERIALIZES, THE OPERATIONAL ROLE OF THE PREVIOUS CONCESSION HOLDERS IS LIKELY TO BE MAINTAINED TO SOME EXTENT AND INSTEAD OF HAVING THE ORIGINAL LIMITED OFFICIAL USE

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BENEFIT OF DISPOSING OF "EQUITY" OIL THEY ARE LIKELY TO HAVE SUBSTANTIAL SECURITY OF ACCESS TO SUPPLIES AND ALSO SOME PRICE ADVANTAGE IN RESPECT OF THEIR "BUY-BACK" QUANTITIES.

B) TRANSPARENCY OF THESE ARRANGEMENTS WILL BE ESSENTIAL, TO AVOID EXCESSIVE PROFITS WITHOUT HOWEVER AFFECTING THE VIABILITY OF THE OPERATION. TRANSPARENCY IS ALSO REQUIRED IN ORDER TO AVOID A SITUATION IN WHICH THOSE OPERATORS OUTSIDE THE EIGHT INTERNATIONALS ARE EXCESSIVELY HANDICAPPED BY HAVING TO RELY ON SUPPLIES IN

AN IRREGULAR MARGINAL MARKET WHOSE PRICES FLUCTUATE WILDLY AND CAN BE (AS THEY WERE RECENTLY) MUCH HIGHER THAN THE LEVEL OF MAJOR COMPANY PRICES.

C) SUCH TRANSPARENCY MIGHT LEAD TO A TRIANGULAR ORDER IN WHICH THE TRADITIONAL COMPANIES (WHOSE SHARE IN THE TOTAL FLOW OF OIL IS GOING TO SHRINK ANYWAY) WILL HAVE AN AGREED ADVANTAGE IN RECOGNITION OF THE LOSS OF THEIR CONCESSIONAL RIGHTS, BUT THE REST OF THE INDUSTRY (WHOSE SHARE IS GOING TO INCREASE) WILL HAVE THEIR RELATIVE POSITION CLARIFIED AND ASSURED.

D) IT IS LIKELY THAT THE INTENDED CONTACTS BETWEEN CONSUMER AND PRODUCER COUNTRIES WILL PROVIDE OPPORTUNITIES FOR THE LATTER TO EXAMINE THE ADVANTAGE FOR THEM OF A MORE STABLE AND STRUCTURED SET-UP. THE RECENT DISAPPOINTMENTS THEY FACE WILL HAVE PROVED TO THEM THAT AN "AUCTION" SYSTEM OF DISPOSAL IS IN THE LONGER RUN DISADVANTAGEOUS FOR THEM TOO. AN INDUSTRY WHICH DEPENDS ON HEAVY AND SUSTAINED INVESTMENTS CANNOT BE RUN IN THIS WAY.
END QUOTE.VOLPE

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